

April 3, 2009

Ms. Mary F. Rupp  
Secretary of the Board  
National Credit Union Administration  
1175 Duke Street  
Alexandria VA 22314-3428

Dear Ms. Rupp:

Re: Advance Notice of Proposed Rulemaking (ANPR) for Part 704

On behalf of the management and Board of Money One FCU, I thank you for the opportunity to comment on the NCUA's Advance Notice of Proposed Rulemaking.

### **The Role of Corporates in the CU System**

*Payment System:* the ANPR did not define payment system. Is this referring to the settlement of funds? Is this referring to the processing of member share drafts? We currently use a CCU to process our daily cash letters—this service is very competitively priced and vital to our daily branch operations. The next alternative provider was extremely more expensive, cumbersome, and required a much larger fixed asset investment. Our CCU stepped into the lurch after the Katrina hurricane—quickly providing remote branch capture to affected CUs so CU services were available to members—the Federal Reserve was unable to assist and faced with their own problems. We currently use a CCU to process our member share drafts. Their Check 21 solution was affordable and easy to implement as our Federal Reserve Bank forced us to adopt Check 21 without providing a competitively priced alternative. Our CCU is consistently developing cutting edge correspondent services for its member credit unions. The innovative and fairly priced solutions allow us to pass through the savings to our members.

*Liquidity and liquidity management:* one of the roles of a CCU is to provide liquidity and perform liquidity management. CCUs can manage their balance sheets in a way to ensure a sufficient amount of cash on hand every night. The current crisis is caused by several (6??) of the CCUs which did not effectively manage their investment portfolio. Effective management of the CCU investment portfolio must be implemented and proper regulatory oversight must be implemented. I am not qualified to state an opinion on aggregate cash flow duration limitations. Providing liquidity should be a core function of CCUs. Contrary to the recent news that the largest Credit Union thinks CCUs are no longer needed---we rely very heavily on our corporates for our liquidity management and lines of credit. We do not have the scale to demand market rates on our investment portfolio and overnight deposits. If we have to acquire our lines of credit from commercial banks, it will surely cost us significantly more in direct fees and pledged collateral.

*FOM's:* I recommend that NCUA retain national fields of memberships for CCUs. Restricting a CCUs FOM will limit a NPCUs ability to competitively search for the best provider of services, stifle innovation, and cause an uneven playing field among CUs throughout the country. Our CU is situated in the Mid-Atlantic States. Would we be limited to only use a CCU on the East Coast,

or South or Mid-Atlantic? What happens if that CCU(s) does not provide the services we need to offer the best products to our members—such as the best remote deposit capture program, the best Check 21 solution, charge more for consumer related products? Our CU would be at a competitive disadvantage because consumers can belong to many credit unions (many extremely large CUs), and as consumers adopt more electronic delivery channels, our competitive pressures will increase. We need all the alternatives available to provide the best options to our members.

*Expanded Investment Authority:* It's doubtful that this is needed. Our Board of Directors chose to work with two CCUs—neither of which had expanded investment authority. Our Board also diversified our investment portfolio—investments in both CCUs as well as government and agency bonds. If NCUA continues to grant expanded investment authority, oversight must be fortified and appropriate diversification limits instituted. CCU management must be capable of monitoring and managing the risks. The current expanded authority has not been successful, and at worst, it has been financially devastating to many credit unions—NPCUs as well as CCUs. I believe that regulations should require additional oversight and monitoring of the investment decisions. CCUs with expanded investment authority should be subjected to requalification standards. Investment regulations should encourage credit analysis that takes ratings into account. Well structured securities from established issuers are rarely issued with just one rating, and multiple ratings may offer different external perspectives that can assist with internal analysis and monitoring. The lowest ratings available should meet the minimum rating requirements under the regulation.

*Structure, Two-Tiered System:* Certainly something must change—US Central leveraged its balance sheet to excess. In order to prevent a similar situation from repeating in the future, US Central must face strict guidelines on leveraged borrowing and investment management. However, modifying the two-tier system and eliminating US Central would weaken a significant number of CCUs nationwide. Their NPCU member's would have to find alternate providers for many services provided by US Central, eliminating the economies of scale which have proved successful for NPCUs. The recent actions by NCUA to impair our capital and earnings, whether or not a NPCU was a member of a CCU, caused a tremendous lack of trust in our regulator. We are independently owned and managed organizations of our members. It is our members' capital that is at risk. While a two-tiered CCU system has much merit, capital requirements must be reexamined and effective risk management implemented. CCUs with expanded investment authority must have a higher capital requirement---more risk=more capital. CCUs must provide a full and complete accounting of their balance sheets and investment portfolio to their members. If this was done, could this distress been avoided?

## **Corporate Capital**

*Core Capital & Membership Capital:* Mandatory capital deposits should not be required of NPCUs to do business with a CCU. In our case, we maintain a correspondent deposit account that earns very little to no interest and we pay higher fees for services. Each CCUs board of directors should determine what capital deposits it requires from its members—this should not be regulated. Mandating capital deposits at this time might be impossible given the current ill will of credit unions towards the NCUA. By its recent actions and changes to regulations, the NCUA might cause the entire credit union

industry to implode. Regulations must require adequate and thorough disclosure notifying members of the inherent risks of paid-in-capital.

*Risk-based capital:* Risk weighted capital requirements (Basel Accord) should have been implemented years ago. This alternative capital calculation was discussed in the early 1990's by the CCUs and the NCUA—in meetings where CCU executives and NCUA corporate credit union examiners were in attendance. NCUA was unwilling to implement risk weighted capital requirements. The risk-based capital requirements must include provisions for core capital deposits and Tier II capital since CCUs do not have the ability to raise capital from the sale of stock. Perpetual paid-in-capital, or Tier I capital, is recognized for GAAP purposes and by the capital markets as permanent capital.

Any new required capital ratios must be phased in, given the after effects of the write-downs associated with US Central's recent problems. Corporate credit unions operate on such thin margins and have increasingly relied on membership capital (MC) accounts—paying an attractive yield to garner investment. These CCUs have a dilemma today as they struggle to pay a high rate of return on MC in the midst of dealing with struggling investments. Corporate CUs must focus their efforts on increasing retained earnings as a method to build capital. Given the current state of the economy and financial markets, it would be fair to require CCUs to meet new capital requirements by the middle of 2011—probably about 2 years after any new regulations are adopted.

### **Permissible Investments**

Corporate credit unions should retain the ability to hold a broader scope of investments than NPCUs because retail and corporate credit unions have different investment and liquidity needs. To provide liquidity for its members, a CCU requires a wide range of short-term investment opportunities with the flexibility to make alternative investment decisions. CCUs should not be allowed to invest in complex, exotic security structures such as collateralized debt obligations. These and other investments require the purchaser to understand the underlying collateral and the complex structure of the notes issued. CCUs must be allowed latitude to invest in securities not permitted for NPCUs such as subprime and Alt-A asset backed securities, but regulations should limit the extent of exposure to these riskier assets.

### **Credit Risk Management**

As evidenced by the current crisis in our financial markets, the current ratings system is flawed. NCUA now requires just one NRSRO rating per investment. Has this led to cherry picking of available ratings and the investment in questionable securities? As previously mentioned, well structured securities from established issuers are rarely issued with just one rating, and multiple ratings may offer different external perspectives that can assist with internal analysis and monitoring. The lowest ratings available should meet the minimum rating requirements under the regulation. Current concentration limits set credit limits as a percentage of capital. Non-agency limitations should be expanded to include the type of underlying collateral, such as prime, Alt-A, interest only loans, payment option loans, etc. CCUs that have expanded investment authority must place greater emphasis on the ongoing monitoring of the underlying collateral performance, servicer ratings, and economic trends.

**Asset Liability Modeling**

Net interest income modeling provides an effective way to complement other ALM modeling tools such as NEV.

**Corporate Governance**

Each CCU should enact policies that set minimum standards/requirements for a Board director regarding experience and knowledge. US Central's board members must be elected from its active membership, and in part should be chosen from outside of member corporates to ensure that decision-making is unbiased and in the best interests of US Central's members. Compensation of CCU executives should be commensurate with responsibilities and will be dictated by market forces. GAAP accounting rules require the disclosure of golden parachutes and deferred compensation packages. But that is not enough. Greater transparency and disclosure of compensation packages for senior executives for CCUs with expanded investment authority should be required.

Thank you for this opportunity to comment on the ANPR.

Sincerely,

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